

Directors

I A Suttie (Chairman)

G A Forbes (Finance Director)

Secretary

Paul & Williamsons

Auditors

Ernst & Young

50 Huntly Street

Aberdeen

AB10 1ZN

Bankers

Bank of Scotland

Queen's Cross Branch

40 Albyn Place

Aberdeen

AB10 1YN

Solicitors

Paul & Williamsons

Investment House

6 Union Row

Aberdeen

AB10 1DQ

Registered Office

Investment House

6 Union Row

Aberdeen

AB10 1DQ

Registered No: 191745

Annual Report and Financial Statements for the Year Ended 30th April 2005

CONTENTS

| | |
|--------------------------------------|----|
| Highlights of the Year | 3 |
| Chairman's Statement | 5 |
| Operations Review | 7 |
| Financial Review | 9 |
| Directors' Report | 11 |
| Auditors' Report | 13 |
| Consolidated Profit and Loss Account | 15 |
| Group Balance Sheet | 16 |
| Group Cash Flow Statement | 18 |
| Notes to the Financial Statements | 19 |



Highlights

"First Oil is the largest, private, UK owned Group currently producing oil and gas in The North Sea"



Anglia 'A' Platform

The Group

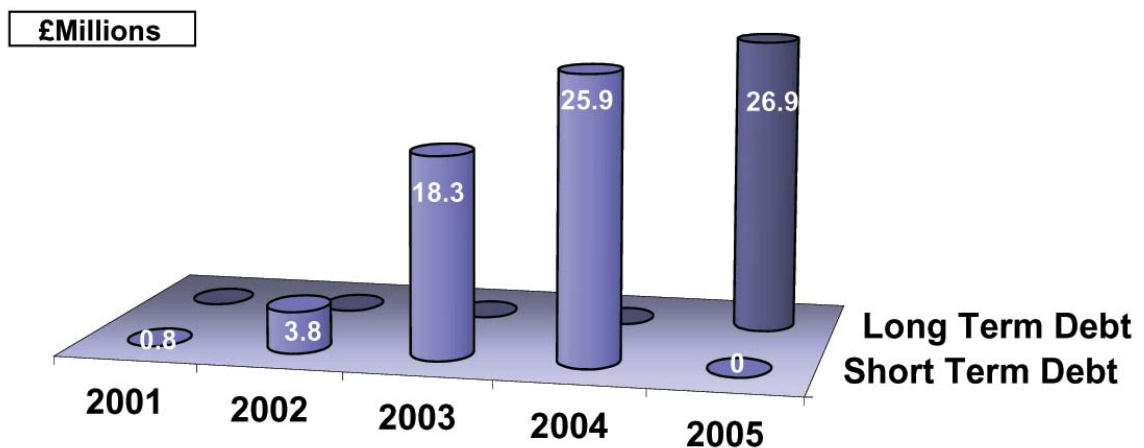
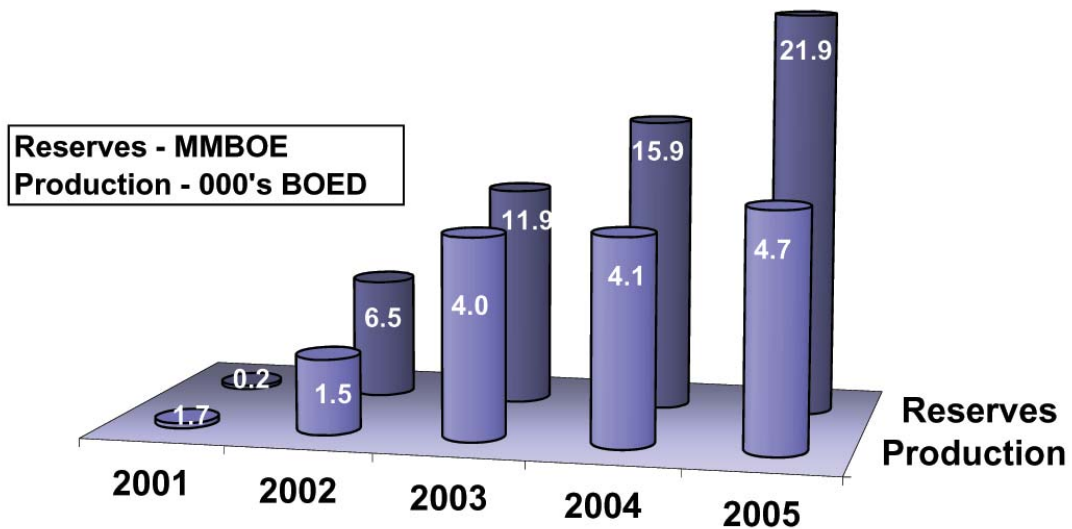
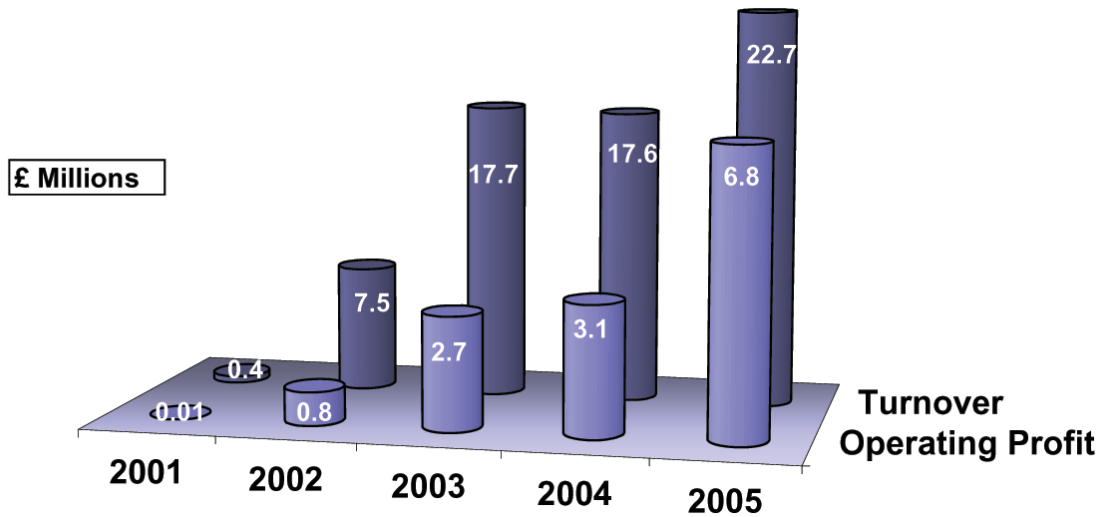
- Well balanced, high quality oil and gas asset portfolio
- Outstanding exploration prospects
- Experienced team of high quality subsurface and commercial personnel
- Reliable production and cash flow
- Long term funding in place to finance current and future growth

The Performance

- 5th successive year of rising Profits before Tax
- Operating Profits more than double 2003/2004 to £6.8 million in 2004/2005
- Return before tax on opening Shareholders funds increases to 55.9% in 2004/2005 from 39.1% in 2003/2004.
- £40m senior debt facility secured transforming the Group Finances
- Major Portfolio growth and diversification through acquisition and development
- Production increased to 4,700 BOED
- 2P Reserves increased to 22 MMBOE

Highlights

"Record reserves, substantially increased profits and a strong asset base position First Oil for future growth"



Chairman's Statement

Introduction

It is pleasing to report that First Oil is in a very healthy position both operationally and financially. Financially, the Group's Balance Sheet has benefited from the restructuring of our finances with the oil and gas team within the Bank of Scotland. Previously, we enjoyed banking facilities with the Bank of Scotland in Aberdeen, however the security for the facilities granted were provided by myself personally. This method of financing was extremely beneficial in the early days in the establishment of First Oil but that "venture capital" is fortunately no longer required. In addition, the personal loans which were previously being provided were repaid in full during the year. As a result, First Oil's balance sheet now has a more traditional oil producing company format.

Record Production, Reserves and Earnings

First Oil had an excellent year in 2005, with progress to report on all fronts.

Average production rose by 15% to 4,700 BOED. All of the Group production emanated from the UK and overall the balance between gas and oil was 89% to 11%. Oil and gas reserves increased 38% to 21.9 MMBOE. First Oil's reserves replacement was 3.5 times its 2005 production. Several of First Oil's prospects, including our oil find in Tweedsmuir, are currently being appraised and further reserve additions are expected in due course.

Turnover for the year has increased 30% from £17.6 million in 2004 to £22.7 million in 2005 while operating profits increased to £6.8 million (2004 £3.1 million). Capital expenditure reached £17.7 million in 2005 compared to £15.2 million in 2004.

With the growth, the Group has delivered an annual pre-tax profit of £5.1 million (£0.70 per share).

First Oil's balance sheet strengthened considerably during 2005 with total net assets increasing 34% to £12.3 million. Although First Oil's growth has substantially increased its borrowing capacity, bank debt remains under £27 million. This positions the Group with considerable flexibility in financing future acquisitions.

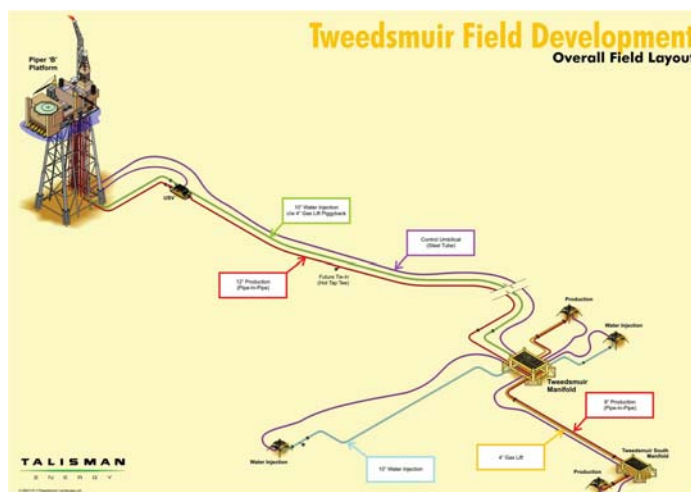
Acquisitions and Portfolio Management

The main event of the year was the purchase from Caledonia Oil and Gas Ltd of some former Consort Resources Limited assets. These included a significant interest in the Anglia field (32.8%) as well as other non producing prospects.

An agreement was also reached late in the 2004/2005 financial year to acquire an additional 10% in the Galahad field and 3% in the Mordred Field from Premier Oil & Gas Ltd. We have also "bought out" the gas sales contracts from RWE on these fields.

In 2005, after the close of the financial year, First Oil realised some of the upside value in its gas portfolio by selling its 10.322% interest in the Chiswick gas prospect.

The Tweedsmuir oil field in the North Sea is currently being developed as a subsea tieback to the Talisman operated Piper field. During 2005 and 2006 it is anticipated that we will incur Capex of £18 million on our interest in the Tweedsmuir and Tweedsmuir South developments. This is due to come on stream in the last quarter of 2006 or early 2007. We will drill 4 wells (2 producers and 2 injectors). The first development well was spudded in early April 2005.



The development should add approx 2500 BOPD to our production and further diversify our portfolio of producing assets. We are hopeful that some of our other prospects will move forward during 2005/2006. In particular we are reprocessing seismic on the Romeo prospect with the intent of drilling a well in 2006. We are also hopeful of drilling our Palamino prospect on Block 21/6a. Estimated recoverable reserves are 3.3 MMBOE net.

We have also budgeted for a well to be drilled on our new acquisition, the Anglia Field, in the fourth quarter of 2005. Infill drilling also continues on the Clyde field where we will drill 3 wells during 2005.

Growth Strategy

The group has developed a track record which clearly demonstrates an ability to create asset value through acquisition, development and measured exploration, as well as to deliver financial returns through innovative commercial transactions. First Oil will continue to build and maximise value from its strategic positions while staying focused on re-emerging opportunities in the North Sea. First Oil's proven tight control of costs remains a key factor in ensuring its ongoing success.

Outlook

Oil & Gas price volatility over the last two years has reinforced the need for modern oil companies to work smarter and faster than ever before. First Oil has proven that its technical team can find oil at very low cost and that its commercial team can exploit industry opportunities. Against a backdrop of opportunity in the North Sea, the Group, with its strong financial position, is particularly well placed to build upon its position as one of the UK's leading private oil and gas companies.

The board believes that First Oil holds the essential attributes for achieving success in this developing era for independent oil companies: high quality assets, an experienced team and unique strategic positioning. We are confident that the excellent results of 2005 will prove a sound base from which to deliver increasing value to our shareholders.

Ian A Suttie

Chairman and Chief Executive

Operations Review

"Significant increase in the Group asset base through the Tweedsmuir development which should add to its Reserve base when it comes on stream in January 2007."



Tweedsmuir S-Lay Trenching and Backfill by the Far Sovereign

Producing Assets

Anglia (Equity Interest: 32.8%)

The field was acquired in October 2004 and since that time Gas sales have averaged 3.9 MMSCFD net to First Oil. All eight wells continued to produce during the year. The Operator progressed a number of subsurface studies including pre-stack depth migration, seismic inversion and detailed geological modelling. Initial results have been encouraging with the first development well budgeted for Q4 2005.

Helvellyn (Equity Interest 50%)

Gas sales from the Helvellyn field averaged 11.1 MMSCFD net to First Oil. The rate of production decline has decreased, which may indicate that the Carboniferous sands which underlie the main Rotliegendes producing interval are beginning to contribute to production. The Operator has embarked on a full revision of the Helvellyn subsurface model and this work will be used to explain field performance and enhance our understanding of the reservoir.

Bains (Equity Interest 13.2%)

Gas sales from the Bains field averaged 3.6 MMSCFD net to First Oil. Bains is an extremely reliable asset and performed well throughout the report period. The interest was purchased pre-development from Edinburgh Oil & Gas in 2003.

Galahad (Equity Interest 17.77%) and Mordred (Equity Interest 5.33%)

Gas sales from the Galahad and Mordred fields averaged 1.8 MMSCFD net to First Oil. Galahad has two wells, one of which - Well G2 - produces intermittently due to water production. Well G2 and consequently Galahad as a whole performed better than forecast during the year. Plans were put in place to modify the Galahad facilities to improve water handling and allow Well G2 to produce more reliably. Mordred produced as forecast. An acquisition of a further 10% interest in Galahad and 3% of Mordred was completed in the second quarter of 2005.

Clyde / North Leven / Medwin (Equity Interest 5%)

Oil sales from the Clyde field averaged 471 BOPD net to First Oil. The field performed to expectation through most of the report period. Infill well A40 came on line during August and further infill drilling is planned. Well AP1 will be spudded in mid 2005 and then followed by a West Medwin producer later in the year. A portfolio of infill targets has been identified and at least two further wells are planned for 2006. Production was below plan in early 2005 due to delays in commissioning a water injection upgrade. When commissioned in mid-2005, the upgrade is expected to add 100 BOPD net.

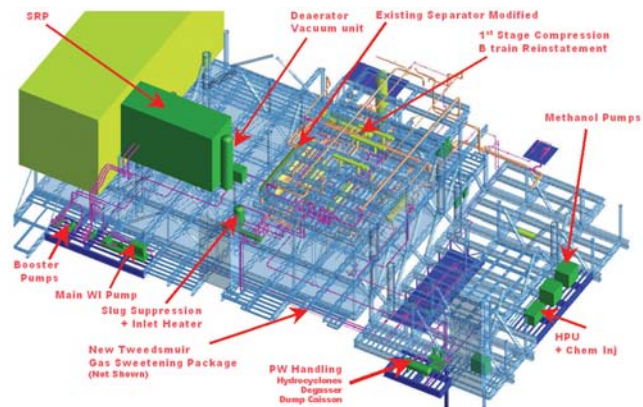
Buchan and Hannay (Equity Interest 0.908%)

Oil sales from the Buchan and Hannay fields averaged 96 BOPD net to First Oil. The fields produced above expectation due to successful wellwork on Buchan Well B1 and Hannay Well H02. Reliability was excellent throughout the report period.

Developments

Tweedsmuir (Equity Interest 5.57%)

The Tweedsmuir project continues on schedule with first production on track for late 2006 / early 2007. Several significant project milestones were achieved during the year with all major contracts awarded by the end of 2004. Manufacture of the 55 km pipe-in-pipe production flowline commenced in December 2004. The first Tweedsmuir development well was spudded on 13th April 2005. Tweedsmuir is an important part of our future with average net production rate during the first year forecast to be 2500 BOEPD.



Piper 'A' Platform Topside Modifications to accommodate Tweedsmuir production

Exploration

Onshore, evaluation of the Waddock's Cross 2 well continued with the well being re-completed with a rod-pumping unit for a long-term production test. The results of this test are still being assessed but, although good reservoir properties were shown, overall production rates were reduced by high levels of water production. A 3D seismic survey was being shot over the field at the end of the year to help assess the potential for further drilling on the field. Our equity interest is 26.25%.

First Oil intends to increase its interest in the Romeo prospect positioned in Block 47/14b from its current holding of 20%. Seismic reprocessing is underway to de-risk the prospect before committing to a well location for 2006.

Work also continues on the Fyne & Dandy heavy oil fields in Block 21/28a (First Oil Interest 25%). Studies were carried out on petrophysics and seismic imaging to improve the estimation of recoverable reserves. The operator, ENI have put out a tender for a complete 3rd party development solution. During the year PSDM processing of 3D seismic also began on the Glenn discovery (2M bbls reserves) in block Block 21/2 NJR (First Oil Interest 8.33%). This will provide a re-interpretation of the block.

In Blocks 20/10b & 20/15a (First Oil Interest 15%) efforts are concentrated on a less risky prospect, Palamino following the dry Criollo well drilled in 2003/2004. Block 53/4a (First Oil Interest 25%) contains part of the closed-in Welland gas field and the yet to be developed Wissey gas field. Development alternatives for Wissey to nearby infrastructure are currently being evaluated.

A cash disposal of Block 49/4a (10.74%) containing the Chiswick prospect was completed after the year end.

Our other interests include 55% and operatorship of block 3/1a. Interest on this block has focussed on an extension of West Lyell and we plan to transfer operatorship to CNR to facilitate appraisal. We also have an 8.33% interest in block 21/2 which contains the Glenn discovery with an estimated 5.8 million barrels of gross recoverable reserves. In the SNS we own 25% of the 30 BCF GIIP Wissey discovery on block 53/4a and a significant portion of the Bedevere discovery extends onto our Anglia acreage.

Proven and Probable Reserves can be summarised as follows:

| | Oil MMBBL | Gas BCF | Total MMBOE |
|-------------------------------------|-----------|---------|-------------|
| Remaining Reserves at 1 May 2004 | 11.58 | 25.83 | 15.89 |
| Production | (0.21) | (7.90) | (1.53) |
| Revisions | (0.80) | 0.78 | (0.67) |
| Acquisitions/(Disposals) | 0.00 | 49.12 | 8.19 |
| Remaining Reserves at 30 April 2005 | 10.57 | 67.83 | 21.88 |

Proven and Probable Reserves are defined in accordance with the 'Statement of Recommended Practice' (SORP) issued by the Oil Industry Accounting Committee (OIAC).

John Cowie

Commercial Manager

Financial Review

"...profitable growth, a broadening portfolio of assets combined with a step-change in the financial structure"



47/10-7y Helvellyn Well being tested at 60 mmcsd

Introduction

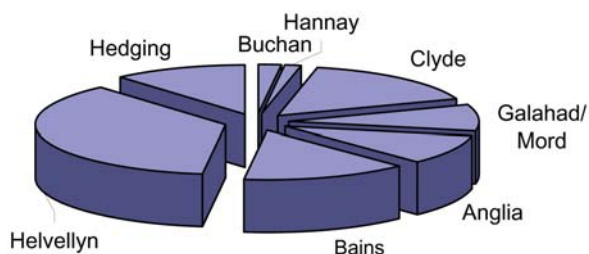
2004/05 was a year of significant financial progress for First Oil. The Group reported record levels of production, turnover and profitability. This track record of profitable growth, a broadening portfolio of assets combined with a step-change in the financial structure leaves the Group in a very strong financial position to exploit future growth opportunities in the industry

Turnover

Revenue increased over 35% to £22.7 million during the year. This was achieved through a combination of increased production levels and higher oil & gas prices.

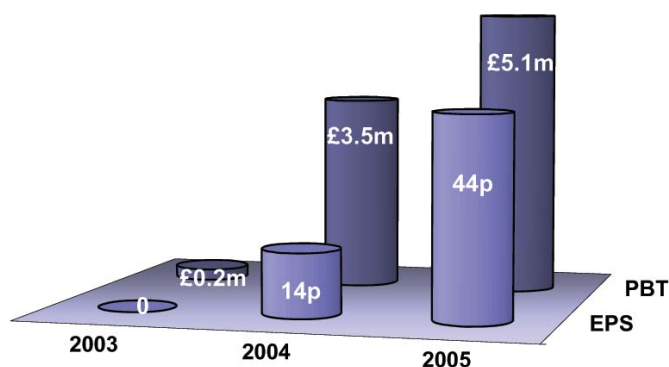
The Group used commodity swaps and put options as a means of hedging price risk during the year. No predetermined policy is implemented in determining the timing, levels or mix of instruments used. The markets are closely monitored and hedging is taken after considering the relevant market indications at the time. During 2005 successful hedging contributed 10% to revenues.

Revenues were generated across eight producing fields during the year with the largest contributor being the Helvellyn field brought into production in early 2004. Revenues from the Anglia field purchased during the year are included in the Profit and Loss Account from Oct 2004 when the acquisition was completed. A full year of production from Anglia in 2005/06 will further improve the revenue spread between assets. Similarly, completion of the Tweedsmuir development in the 2006/07 financial year will broaden the depth of producing assets.



Profitability

The Group delivered strong operating profits of £6.8 million in 2005, over double that of 2004 (£3.1 million) - all fields provided a positive contribution. First Oil's 'successful efforts' accounting policy requires that all costs associated with unsuccessful exploration are written off to the profit and loss account in the year. This conservative policy has been and continues to be adopted thus ensuring prudent values for non-producing assets. Significant progress in one prospect, as a result of both new subsurface and commercial developments, has resulted in the Board obtaining sufficient comfort to write back the costs of an investment formerly written-off (£0.5 million). With profits



before taxation of £5.1 million (2004 - £3.5 million) the return before tax on opening Shareholders funds increases to 55.9% in 2005 compared to 39.1% in 2004

Taxation

There was no Corporation Tax charge nor PRT charge in the year. A deferred taxation charge of £1.8 million with an effective rate of 36% was made during the year.

Cashflow

Trading Operations generated cashflow of £15.0 million during the year with the figure forecast to increase to over £20.0 million during 2005/2006.

In October 2004 a £40.0 million revolving credit facility was secured with full repayment due by December 2010. This restructuring provided the facility to settle all existing short-term debt i.e. the bank overdraft and Director's loans. Importantly it provided low-cost senior debt to assist in the growth of the Group via the acquisition of the Anglia assets and the existing capital investment program. Funding of the ongoing £18.0 million investment in the Tweedsmuir project is also fully accommodated within the facility. At the end of the financial year funds drawn against the facility stood at £27.0 million, well within the facility arrangement.

Balance Sheet

As a result of the current headroom in the borrowing facility none of the existing debt is forecast as being due for repayment within 12 months of the balance sheet date. With £0.9 million in the bank the Group holds net current assets of £1.7 million (2004 - £27.8 million current liabilities). Total net assets have increased by £12.9 million to £32.3 million before accommodating a deferred tax provision of £5.0 million and abandonment provisioning of £15.0 million.

Graham Forbes

Financial Director

Directors' Report

The directors present their annual report and the audited consolidated financial statements for the year ended 30 April 2005.

Results and dividends

The results of the group for the year ended 30 April 2005 are set out in the profit and loss account on page 15. The profit on ordinary activities after taxation amounted to £3,241,000 (2004 – £1,019,000).

The directors do not recommend the declaration of a dividend (2004 - £Nil).

Principal activities and review of the business

The principal activities of the company and its subsidiaries (the Group) are oil and gas exploration and production. Information on the company's principal subsidiary undertakings is contained in Note 11 to the financial statements.

The Chairman's Statement together with the Operational and Financial Reviews describe the significant developments in the business of the Group during the year and its future prospects.

During the year the Group acquired First Oil SNS Ltd (formerly Caledonia SNS Ltd) primarily to attain a significant interest in the Anglia field. As a result, in accordance with FRS 3, the transaction is treated as an acquisition of a fixed asset. There is no impact on profit as a result of this treatment.

Directors and their interests

The directors at 30 April and their interests in the share capital of the Company were as follows:

| | Ordinary £1 shares | |
|-----------------------|--------------------|-----------|
| | 2005 | 2004 |
| I A Suttie (Chairman) | 6,015,649 | 6,015,649 |
| G A Forbes | - | - |

Substantial ordinary shareholders

Denisla plc holds 1,238,250 shares (15.4%) of the Company. I A Suttie is a Director of Denisla plc and his interest in the share capital of Denisla plc is disclosed in the financial statements of that company.

Creditor payment policy and practice

It is the company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers, provided that all trading terms and conditions have been complied with.

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

Post Balance Sheet Events

Details of post balance sheet events are provided in note 19 to the financial statements.

Ian A Suttie

Director

18 July 2005

Graham A Forbes

Director

Statement of Directors' Responsibilities in respect of the Financial Statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors' Report

to the members of First Oil plc

We have audited the company's financial statements for the year ended 30 April 2005 which comprise the Group Profit and Loss Account, Group Balance Sheet, Group Statement of Cash Flows and the related notes 1 to 23. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 30 April 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Registered Auditor

Aberdeen

18 July 2005

Group Profit and Loss Account

for the year ended 30 April 2005

| | Notes | 2005 £000 | 2004 £000 |
|-----------------------------------------------|-------|--------------|--------------|
| Turnover | 2 | 22,730 | 17,547 |
| Cost of sales | | (14,476) | (12,888) |
| Gross profit | | 8,254 | 4,659 |
| Administrative expenses | | (1,469) | (1,542) |
| Operating profit before exploration costs | | 6,785 | 3,117 |
| Exploration costs written back/(expensed) | 9 | 494 | (2,644) |
| Operating profit before exceptional costs | | 7,279 | 473 |
| Profit on disposal of tangible fixed assets | | - | 4,636 |
| Operating profit after exceptional items | | 7,279 | 5,109 |
| Interest receivable | 6 | 38 | 6 |
| Interest payable and similar charges | 7 | (2,248) | (1,637) |
| Profit on ordinary activities before taxation | | 5,069 | 3,478 |
| Taxation on profit on ordinary activities | | | |
| Corporation taxation | 8 | (1,828) | (2,459) |
| Profit retained for the financial year | 22 | 3,241 | 1,019 |

The company has taken advantage of the exemption available to avoid publishing its own Profit and Loss account.

Statement of total recognised gains and losses

There are no recognised gains or losses, other than the profit of £3,241,000 attributable to the shareholders for the year ended 30 April 2005 (2004 – profit of £1,019,000).

Group Balance Sheet

at 30 April 2005

| | Notes | 2005 £000 | 2004 £000 |
|----------------------------------------------------------------|-------|----------------|-----------------|
| Fixed assets | | | |
| Intangible assets | 9 | 2,334 | 3,070 |
| Tangible assets | 10 | 55,168 | 44,149 |
| | | <u>57,502</u> | <u>47,219</u> |
| Current assets | | | |
| Stock | | 1,071 | - |
| Debtors | 12 | 3,779 | 2,468 |
| Cash at Bank | | 846 | - |
| | | <u>5,696</u> | <u>2,468</u> |
| Creditors: amounts falling due within one year | 13 | <u>(3,966)</u> | <u>(30,295)</u> |
| Net current assets/(liabilities) | | <u>1,730</u> | <u>(27,827)</u> |
| Total assets less current assets/(liabilities) | | <u>59,232</u> | <u>19,392</u> |
| Creditors: amounts falling due after more than one year | 14 | (26,986) | - |
| Provision for liabilities and charges | | | |
| Decommissioning | 17 | (14,955) | (8,490) |
| Deferred Taxation | 8(c) | (4,989) | (1,841) |
| Equity minority interests | 20 | 9 | 9 |
| | | <u>12,311</u> | <u>9,070</u> |
| Capital and reserves | | | |
| Called up share capital | 21 | 7,254 | 7,254 |
| Capital redemption reserve | 22 | 764 | 764 |
| Profit and loss account | 22 | 4,293 | 1,052 |
| Equity shareholders' funds | 22 | <u>12,311</u> | <u>9,070</u> |

IA Suttie
Director

G A Forbes
Director

18 July 2005

Company Balance Sheet

at 30 April 2005

| | Notes | 2005 £000 | 2004 £000 |
|-------------------------------------------------------|-------|--------------|--------------|
| Fixed assets | | | |
| Investments | 11 | 589 | 589 |
| Current assets | | | |
| Debtors | 12 | 7,158 | 7,158 |
| Cash at bank and in hand | | 3 | - |
| | | 7,161 | 7,158 |
| Creditors: amounts falling due within one year | 13 | (1) | (18) |
| Net current assets | | 7,160 | 7,140 |
| | | 7,749 | 7,729 |
| Capital and reserves | | | |
| Called up share capital | 21 | 7,254 | 7,254 |
| Capital redemption reserve | 22 | 764 | 764 |
| Profit and loss account | 22 | (269) | (289) |
| Equity shareholders' funds | 22 | 7,749 | 7,729 |

IA Suttie
Director

G A Forbes
Director

18 July 2005

Group Statement of Cash Flows

for the year ended 30 April 2005

| | Notes | 2005 £000 | 2004 £000 |
|-----------------------------------------------------------------------------|-------|------------------------|------------------------|
| Cash inflow from operating activities | 23(a) | 15,026 | 3,381 |
| Returns on investment and servicing of finance | | | |
| Interest paid | | (1,956) | (1,435) |
| Interest received | | 38 | 6 |
| | | <u>(1,918)</u> | <u>(1,429)</u> |
| Taxation | | | |
| UK corporation tax paid | | - | - |
| Capital expenditure and financial investment | | | |
| Redemption of ordinary Share Capital | | - | (845) |
| Payments to acquire tangible fixed assets | | (12,811) | (11,909) |
| Payments to acquire intangible fixed assets | | (533) | (2,665) |
| Receipts from sale of tangible fixed assets | | - | 5,872 |
| | | <u>(13,344)</u> | <u>(9,547)</u> |
| Net cash outflow before use of management of liquid resources and financing | | <u>(236)</u> | <u>(7,595)</u> |
| Financing | | | |
| Net movement in short term borrowings | | (4,261) | 280 |
| Net movement in long term borrowings | | 26,986 | - |
| | | <u>22,725</u> | <u>280</u> |
| Increase/(decrease) in cash | | <u><u>22,489</u></u> | <u><u>(7,315)</u></u> |
| Reconciliation of net cash flow to movement in net debt | | | |
| Increase/(decrease) in cash in the period | | 22,489 | (7,315) |
| Cash inflow from increase in debt and lease financing | | (22,725) | (280) |
| Change in net debt arising from cash flows | | <u>(236)</u> | <u>(7,595)</u> |
| Net debt at the start of year | 23(b) | <u>(25,904)</u> | <u>(18,309)</u> |
| Net debt at the end of year | 23(b) | <u><u>(26,140)</u></u> | <u><u>(25,904)</u></u> |

Notes to the Financial Statements

at 30 April 2005

1. Accounting policies

A summary of the principal group accounting policies, all of which have been applied consistently throughout the year, is set out below.

Basis of accounting

The financial statements have been prepared under the historical cost convention and the statement of recommended practice "Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities" and in accordance with applicable accounting standards.

Basis of consolidation

The consolidated financial statements consist of the financial statements of the Company and all its subsidiary undertakings as set out in Note 11.

Turnover and results of subsidiary undertakings are consolidated in the Group profit and loss account from the dates on which control over the operating and financial decisions is obtained.

The group is engaged in oil and gas exploration, development and production through unincorporated joint ventures. The group accounts for its share of the results and net assets of these joint ventures.

Related party transactions

The company has taken advantage of the exemption in FRS 8 from disclosing transactions with members of the First Oil plc group.

Exploration and appraisal expenditure

The company adopts the successful efforts method of accounting for exploration and appraisal costs. All pre-licence, licence acquisition, exploration and appraisal costs are initially capitalised as intangible fixed assets in cost centres by well, field or exploration area, as appropriate, pending determination of commercial reserves. These costs are then written off, unless commercial reserves have been established or the determination process has not been completed. Following the discovery of a commercially viable well, the attributable costs are transferred to tangible fixed assets, in single field cost centres.

Fixed assets

All fixed assets are initially recorded at cost.

Depletion and amortisation - Discovery fields

All expenditure carried within each field is amortised from the commencement of production, on a unit of production basis, which is the ratio of oil and gas production in the period to the estimated quantities of commercial reserves at the end of the period plus the production in the period, on a field-by-field basis.

Costs used in the unit of production calculation comprise the net book value of capitalised costs plus the estimated future field development costs. Changes in the estimates of commercial reserves or future field development costs are dealt with prospectively.

Depreciation

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition of each asset evenly over its expected useful life, as follows:

Equipment - 3 to 4 years

Notes to the Financial Statements

at 30 April 2005 (continued)

1. Accounting policies (continued)

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;
- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable;
- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Petroleum Revenue Tax

Current UK Petroleum Revenue Tax (PRT) is charged as a tax expense on chargeable field profits included in the profit and loss account, and is deductible for UK corporation tax.

Deferred PRT is charged as a tax expense so as to allocate the expected PRT cost over the remaining life of the related field on a unit of production basis, using commercial reserves. The resulting asset or liability is included in the balance sheet under debtors or provisions as appropriate.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward currency contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or, if appropriate, the forward contract rate.

All differences are taken to the profit and loss account, with the exception of differences on foreign currency borrowings, to the extent that they are used to finance or provide a hedge against foreign equity investments. These differences are taken directly to reserves, together with exchange differences on the carrying amount of the related investments. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in reserves.

Derivative Financial Instruments

The group uses hedging instruments to reduce its exposure to fluctuations in oil and gas prices.

Premiums paid to enter such derivative financial instruments are charged to the profit and loss account over the period of the hedge. Payments and receipts arising under the financial instruments are recognised in the profit and loss account in the same periods as the hedged transactions.

Notes to the Financial Statements

at 30 April 2005 (continued)

1. Accounting policies (continued)

Pension costs

Contributions made to personal pension schemes of employees and are charged to the Profit and loss account as incurred. The schemes are administered independently of the company.

Commercial reserves

Commercial reserves are proven and probable oil and gas reserves, as defined in the UK Statement of Recommended Practice, "Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities".

Decommissioning

Provision for decommissioning is recognised in full. A corresponding tangible fixed asset of an equivalent amount to the provision is also created. The amount recognised is the estimated cost of decommissioning, discounted to its net present value, and is re-assessed each year in accordance with local conditions and requirements.

The asset is subsequently depreciated as part of the capital costs of the production and related pipeline facilities, on a unit of production basis. The unwinding of the discount on the decommissioning provision is included in the interest expense. Changes in the estimates of commercial reserves of decommissioning cost estimates are dealt with prospectively.

2. Turnover and segmental information

The group is engaged in petroleum exploration, development and production in the United Kingdom sector of the Continental Shelf. Turnover represents amounts received and receivable in respect of the sale of oil and gas during the period. All turnover is derived from the sale of North Sea oil and gas in the United Kingdom.

Turnover represents the sales value, net of VAT, of the company's share of production in the year, on an entitlements basis.

Revenues received under take-or-pay sales contracts in respect of undelivered volumes are accounted for as deferred income.

3. Operating profit

| | 2005 £000 | 2004 £000 |
|--------------------------------------------------------|--------------|--------------|
| Operating profit is stated after charging/(crediting): | | |
| Depletion and amortisation of oil and gas properties | 10,136 | 7,207 |
| Depreciation of other fixed assets | 13 | 12 |
| Foreign exchange losses/(gains) | 44 | (68) |
| Auditors' remuneration: | | |
| - audit services | 20 | 18 |
| - other services | 44 | 34 |

Notes to the Financial Statements

at 30 April 2005 (continued)

4. Staff costs

| | 2005 £000 | 2004 £000 |
|-----------------------|--------------|--------------|
| Wages and salaries | 427 | 404 |
| Social security costs | 35 | 48 |
| Pension costs | 15 | 12 |
| | <u>477</u> | <u>464</u> |

The weighted average number of employees (including Executive Directors) during the year was:

| | 2005 No. | 2004 No. |
|-----------------|-------------|-------------|
| Management | 3 | 3 |
| Technical staff | 5 | 5 |
| | <u>8</u> | <u>8</u> |

5. Directors' emoluments

| | 2005 £000 | 2004 £000 |
|------------------------------------------------------------------|--------------|--------------|
| Emoluments | <u>75</u> | <u>79</u> |
| Value of company pension contributions to money purchase schemes | <u>3</u> | <u>3</u> |

| | 2005 No. | 2004 No. |
|-------------------------------------------|-------------|-------------|
| Members of money purchase pension schemes | <u>4</u> | <u>4</u> |

The amounts in respect of the highest paid director are as follows:

| | 2005 £000 | 2004 £000 |
|------------------------------------------------------------------|--------------|--------------|
| Emoluments | <u>75</u> | <u>63</u> |
| Value of company pension contributions to money purchase schemes | <u>3</u> | <u>2</u> |

6. Interest receivable

| | 2005 £000 | 2004 £000 |
|--------------------------|--------------|--------------|
| Bank interest receivable | <u>38</u> | <u>6</u> |

Notes to the Financial Statements

at 30 April 2005 (continued)

7. Interest payable and similar charges

| | 2005 | 2004 |
|-----------------------------------------------|--------------|--------------|
| | £000 | £000 |
| Bank interest payable | 1,994 | 1,435 |
| Unwinding of discount on long term provisions | 254 | 202 |
| | <u>2,248</u> | <u>1,637</u> |

8. Taxation

(a) Tax on profit on ordinary activities

The corporation tax charge is comprised of:

| | 2005 | 2004 |
|------------------------------------------------|--------------|--------------|
| | £000 | £000 |
| <i>Current tax:</i> | | |
| UK corporation tax | - | - |
| Tax (over)/under provided in previous years | - | - |
| | <u>-</u> | <u>-</u> |
| Total current tax (note 8 (b)) | - | - |
| <i>Deferred tax:</i> | | |
| Origination and reversal of timing differences | 1,828 | 2,459 |
| | <u>1,828</u> | <u>2,459</u> |

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK. The differences are reconciled below:

| | 2005 | 2004 |
|----------------------------------------------------------|--------------|--------------|
| | £000 | £000 |
| Profit before taxation | <u>5,069</u> | <u>3,478</u> |
| Taxation @ 30% (non UK oil and gas) | - | (4) |
| Taxation @ 40% (UK oil and gas) | 2,027 | 1,396 |
| Disallowed expenses | (194) | (328) |
| Depreciation less than/(greater than) capital allowances | 1,371 | (266) |
| Other timing differences | 103 | (2,570) |
| Utilisation of losses | (3,307) | - |
| Unrelieved tax losses | - | 1,772 |
| | <u>-</u> | <u>-</u> |
| Total tax charge | <u>-</u> | <u>-</u> |

Notes to the Financial Statements

at 30 April 2005 (continued)

8. Tax (continued)

(c) Deferred tax

Group

The deferred tax included in the balance sheet is as follows:

| | 2005 £000 | 2004 £000 |
|------------------------------------------------------------------|--------------|--------------|
| Capital allowances in advance of depreciation | (18,023) | (15,591) |
| Tax losses available | 8,488 | 11,789 |
| Other timing differences | 4,546 | 1,961 |
| | <hr/> | <hr/> |
| Deferred tax liability | (4,989) | (1,841) |
| | <hr/> <hr/> | <hr/> <hr/> |
| At 1 May 2004 | | (1,841) |
| Deferred tax acquired with acquisition of First Oil SNS Ltd | | (1,320) |
| Deferred tax charge in group profit and loss account (note 8(a)) | | (1,828) |
| | | <hr/> |
| At 30 April 2005 | | (4,989) |
| | | <hr/> <hr/> |

Company

No deferred tax assets or liabilities are included in the balance sheet.

9. Intangible fixed assets

Group

| | <i>Exploration and appraisal expenditure</i> £000 |
|-----------------------|----------------------------------------------------------|
| At 1 May 2004 | 3,070 |
| Additions | 2,908 |
| Amounts written back* | 501 |
| Amounts written off | (7) |
| Transfer to Tangible | (4,138) |
| | <hr/> |
| At 30 April 2005 | 2,334 |
| | <hr/> <hr/> |

*Amounts written back represent the reinstatement of costs incurred in acquiring a prospect which was written off in last year's accounts. In light of prevailing commercial conditions it was deemed appropriate to write the investment off in 2004. However, during the year, the commercial impasse has been overcome and this, together with sub-surface progress, have provided the conditions which require the write back.

Notes to the Financial Statements

at 30 April 2005 (continued)

10. Tangible fixed assets

Group

| | <i>Oil & Gas properties</i> | <i>Other</i> | <i>Total</i> |
|-------------------------------------------------|-------------------------------------|--------------|-----------------|
| | <i>£000</i> | <i>£000</i> | <i>£000</i> |
| <i>Cost</i> | | | |
| At 1 May 2004 | 58,785 | 25 | 58,810 |
| Acquisitions | 13,313 | - | 13,313 |
| Additions | 3,814 | 21 | 3,835 |
| Transfer from Intangible | 4,138 | - | 4,138 |
| Disposals | (118) | - | (118) |
| | - | | |
| At 30 April 2005 | <u>79,932</u> | <u>46</u> | <u>79,978</u> |
| <i>Depreciation, depletion and amortisation</i> | | | |
| At 1 May 2004 | (14,643) | (18) | (14,661) |
| Charge for the year | (10,136) | (13) | (10,149) |
| At 30 April 2005 | <u>(24,779)</u> | <u>(31)</u> | <u>(24,810)</u> |
| Net book value: | | | |
| At 30 April 2005 | <u>55,153</u> | <u>15</u> | <u>55,168</u> |
| At 1 May 2004 | <u>44,142</u> | <u>7</u> | <u>44,149</u> |

Company

First Oil plc did not hold tangible fixed assets at any time during the year ending 30 April 2005 (2004 - nil).

11. Investments

Company

| | <i>Investments in subsidiary undertakings</i> |
|------------------|-------------------------------------------------------|
| | <i>£000</i> |
| At 1 May 2004 | 589 |
| Additions | 0 |
| At 30 April 2005 | <u>589</u> |

Notes to the Financial Statements

at 30 April 2005 (continued)

11. Investments (continued)

At 30 April 2005, the subsidiary undertakings, all of which are included in the consolidated Group financial statements were:

| Name | Activity | % | Country of operation | Country of incorporation |
|---------------------------------|-------------------------------------|-------|----------------------|--------------------------|
| First Oil Expro Limited * | Oil & Gas Exploration & Production | 100 | UK | UK |
| Tano Energy Limited | Oil & Gas Exploration & Development | 77.68 | Ghana | UK |
| First Oil SNS Ltd** | Non-trading | 100 | UK | UK |
| First Oil UK Holdings Limited | Dormant | 100 | UK | UK |
| Tano Energy (Ghana) Limited *** | Dormant | 77.68 | Ghana | Ghana |

* Shares held in the name of First Oil UK Holdings Limited

** Subsidiary of First Oil Expro Limited

*** Wholly owned subsidiary of Tano Energy Limited

12. Debtors

| | <i>Group</i> | | <i>Company</i> | |
|-----------------------------------|--------------|--------------|----------------|--------------|
| | 2005 £000 | 2004 £000 | 2005 £000 | 2004 £000 |
| Trade debtors | 787 | 407 | - | - |
| Amounts owed by group undertaking | - | - | 7,158 | 7,158 |
| Other debtors | 1,532 | 10 | - | - |
| Prepayments and accrued income | 1,460 | 2,051 | - | - |
| | <u>3,779</u> | <u>2,468</u> | <u>7,158</u> | <u>7,158</u> |

13. Creditors: amounts falling due within one year

| | <i>Group</i> | | <i>Company</i> | |
|------------------------------------|--------------|---------------|----------------|--------------|
| | 2005 £000 | 2004 £000 | 2005 £000 | 2004 £000 |
| Director's loan (Note 18) | - | 4,261 | - | - |
| Bank overdraft | - | 21,643 | 1 | 18 |
| Trade creditors | 1,034 | 792 | - | - |
| Corporation tax | 113 | 1 | - | - |
| Other taxation and social security | 379 | 889 | - | - |
| Other creditors | 1,924 | 1,903 | - | - |
| Accruals and deferred income | 516 | 806 | - | - |
| | <u>3,966</u> | <u>30,295</u> | <u>1</u> | <u>18</u> |

Notes to the Financial Statements

at 30 April 2005 (continued)

14. Creditors: amounts falling due after more than one year

| | <i>Group</i> | | <i>Company</i> | |
|-----------|--------------|-------------|----------------|-------------|
| | <i>2005</i> | <i>2004</i> | <i>2005</i> | <i>2004</i> |
| | <i>£000</i> | <i>£000</i> | <i>£000</i> | <i>£000</i> |
| Bank loan | 26,986 | - | - | - |

Loan Summary

At 30 April 2005 the Group had a committed borrowing facility under a £40,000,000 revolving credit arrangement. The maximum amount that may be drawn down is determined by reference to the net present value of the assets comprising the underlying borrowing base as well as certain other financial tests. The maximum drawdown available under the facility is reviewed and adjusted at six monthly intervals.

At 30 April 2005 £26,986,000 was drawn under the facility, and under the terms of that facility will be repayable in full by 31 December 2010.

The bank loan is secured by fixed and floating Charges over the assets and shares of the Group Companies.

The current borrowing facility does not forecast any repayment of the existing balance within the next twelve months. The inclusion of a more detailed breakdown of the repayment profile is not practical given there are no fixed repayment terms - the mechanism by which repayments are calculated is the six monthly review of future cashflows.

15. Pensions

The group makes contributions to the personal pension schemes of employees. The unpaid contributions outstanding at the year end, included in "Other creditors" (note 13), was £4,049 (2004 - £2,269).

16. Commitments

Group

Amounts contracted in relation to ongoing projects but not provided for in the financial statements totalled £18.8 million (2004 - £1 million).

Company

Amounts contracted in relation to ongoing projects but not provided for in the financial statements totalled £nil (2004 - £nil).

17. Provisions for liabilities and charges

Group

| | <i>Decommissioning</i> |
|----------------------------------------------------------|------------------------|
| | <i>costs</i> |
| | <i>£000</i> |
| At 1 May 2004 | 8,490 |
| Additional provisions relating to new or acquired assets | 6,326 |
| Revisions | (115) |
| Unwinding of discount on provision | 254 |
| At 30 April 2005 | 14,955 |

The provisions have been calculated using current prices of existing methods of decommissioning and discounted to the net present value. The costs are expected to be incurred between 2007 and 2018. The additional provisions relate to the Anglia and Welland Fields acquired during the year.

Notes to the Financial Statements

at 30 April 2005 (continued)

18. Related party transactions

The group repaid all loans from I A Suttie during the year. Interest accrued on the loan during the year until repayment at base rate plus 5.25%.

No other transactions with related parties were undertaken such as are required to be disclosed under Financial Reporting Standard 8.

19. Post Balance Sheet Events

Since 30 April 2005 the Group has completed an acquisition of a further 10% interest in the Galahad Field and a 3% interest in the Mordred Field. The Group has also signed an agreement to sell its 10.322% interest in the Chiswick Gas Prospect for £1.6 million (plus further consideration upon first gas). The cost and carrying value of this intangible asset on the balance sheet is £325,000.

20. Equity minority interests

| | £000 |
|-------------------------------------------------------|-------------|
| Balance as at 1 May 2004 | 9 |
| Share of current year loss of subsidiary undertakings | - |
| Other adjustment | - |
| | <hr/> |
| Balance as at 30 April 2005 | 9 |
| | <hr/> <hr/> |

21. Share capital

| | <i>Authorised</i> | |
|----------------------------|------------------------------------|-------------|
| | <i>2005</i> | <i>2004</i> |
| | <i>£000</i> | <i>£000</i> |
| Ordinary shares of £1 each | 20,000 | 20,000 |
| | <hr/> <hr/> | <hr/> <hr/> |
| | Allotted, called up and fully paid | |
| | <i>No.</i> | <i>No.</i> |
| | <i>2005</i> | <i>2004</i> |
| | <i>£000</i> | <i>£000</i> |
| Ordinary shares of £1 each | 7,253,899 | 7,254 |
| | <hr/> <hr/> | <hr/> <hr/> |

Notes to the Financial Statements

at 30 April 2005 (continued)

22. Reconciliation of shareholders funds and movements on reserves

Group

| | <i>Share capital</i> | <i>Profit and Loss Account</i> | <i>Capital redemption</i> | <i>Total</i> |
|------------------|--------------------------|----------------------------------------|-------------------------------|--------------|
| | £000 | £000 | £000 | £000 |
| At 30 April 2004 | 7,254 | 1,052 | 764 | 9,070 |
| Profit for year | - | 3,241 | - | 3,241 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 30 April 2005 | 7,254 | 4,293 | 764 | 12,311 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

Company

| | <i>Share capital</i> | <i>Profit and Loss Account</i> | <i>Capital redemption</i> | <i>Total</i> |
|------------------|--------------------------|----------------------------------------|-------------------------------|--------------|
| | £000 | £000 | £000 | £000 |
| At 30 April 2004 | 7,254 | (289) | 764 | 7,729 |
| Profit for year | - | 20 | - | 20 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 30 April 2005 | 7,254 | (269) | 764 | 7,749 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

Notes to the Financial Statements

at 30 April 2005 (continued)

23. Notes to group statement of cash flows

(a) Reconciliation of operating profit to operating cashflows

| | 2005 | 2004 |
|----------------------------------------------------|---------------|--------------|
| | £000 | £000 |
| Operating profit after exceptional items | 7,279 | 5,109 |
| Depreciation of tangible fixed assets | 10,149 | 7,421 |
| Gain on sale of tangible fixed assets | - | (4,636) |
| Exploration expenditure (written back)/written off | (494) | 2,664 |
| Decrease in stocks | 26 | - |
| Increase in operating debtors and prepayments | (549) | (53) |
| Decrease in operating creditors and accruals | (2,590) | (7,124) |
| Increase in abandonment provision | 1,205 | - |
| | <hr/> | <hr/> |
| Net cash inflow from operating activities | <u>15,026</u> | <u>3,381</u> |

(b) Analysis of net debt

| | <i>At</i> | | | <i>Other</i> | <i>At</i> |
|--------------------------|-----------------|--------------|--------------------|------------------|-----------------|
| | <i>1 May</i> | <i>Cash</i> | <i>Exchange</i> | <i>non-cash</i> | <i>30 April</i> |
| | <i>2004</i> | <i>flow</i> | <i>differences</i> | <i>movements</i> | <i>2005</i> |
| | <i>£000</i> | <i>£000</i> | <i>£000</i> | <i>£000</i> | <i>£000</i> |
| Cash at hand and in bank | - | 846 | - | - | 846 |
| Bank overdrafts | (21,643) | 21,643 | - | - | - |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Cash | (21,643) | 22,489 | - | - | 846 |
| Directors loan | (4,261) | 4,261 | - | - | - |
| Long Term Loan | - | (26,986) | - | - | (26,986) |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| | <u>(25,904)</u> | <u>(236)</u> | <u>-</u> | <u>-</u> | <u>(26,140)</u> |

